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DIRECTORATE OF
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State Department review completed

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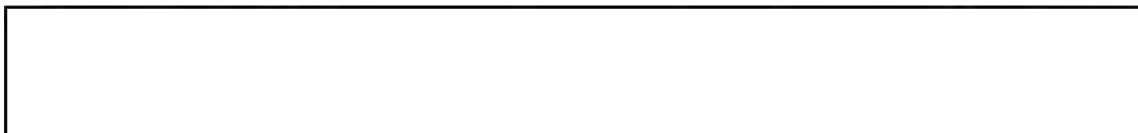
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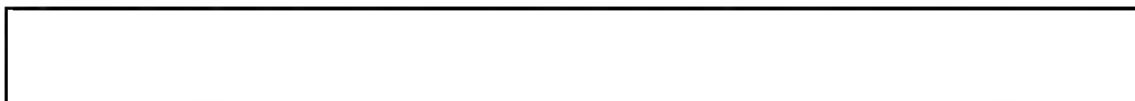
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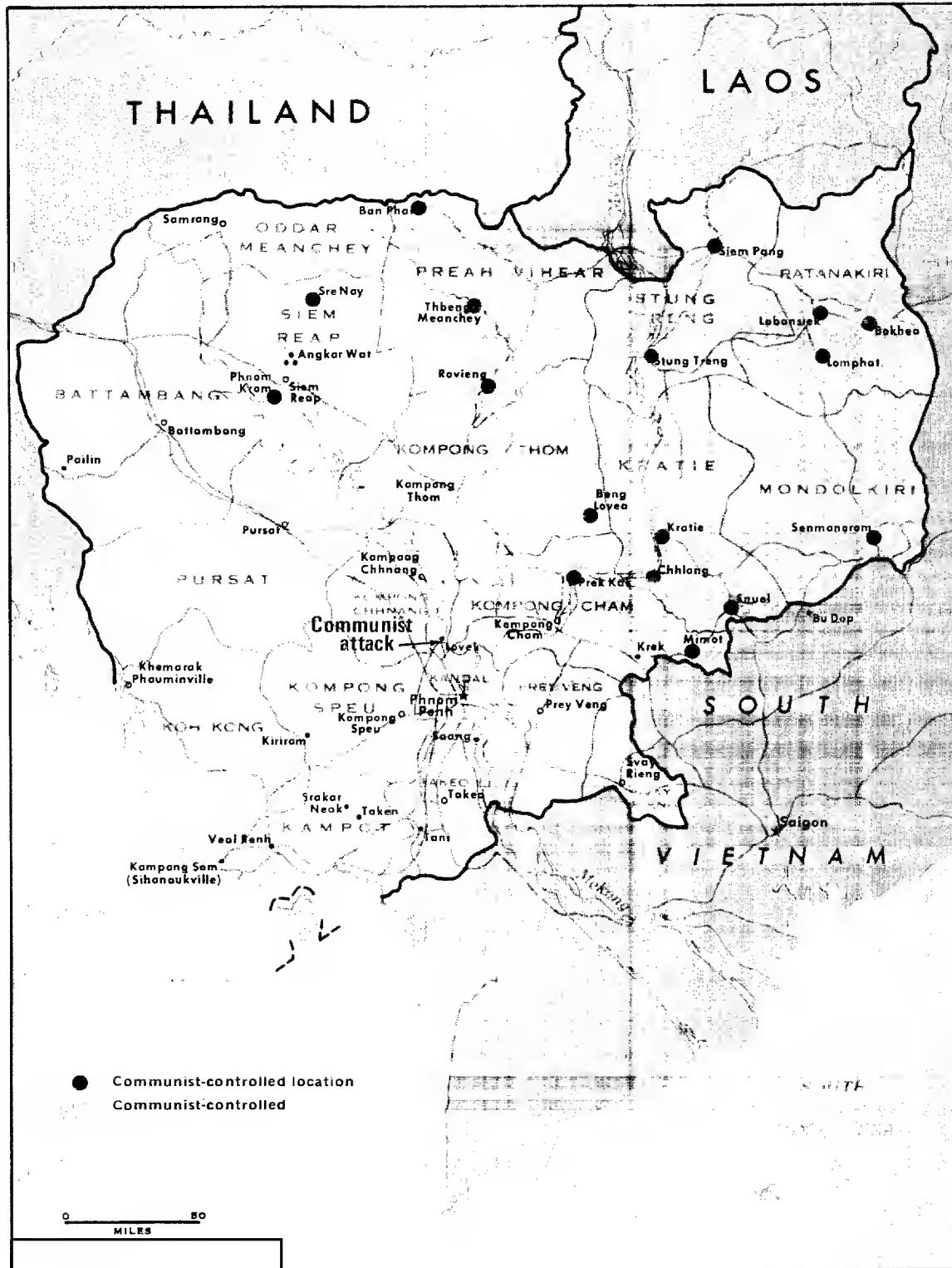
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Cambodia: Current Situation



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Cambodia: Phnom Penh has indicated it is unwilling to join a formal regional defense pact.

Foreign Minister Koun Wick told the US chargé yesterday that the government is opposed to such a move because it would jeopardize Cambodia's standing as a neutral. He implied, however, that Cambodia may not rule out informal military alignment with neighboring governments as long as Communist forces threaten the country. These matters probably will be discussed during President Thieu's visit to Cambodia today, and during Prime Minister Lon Nol's visit to Bangkok next week.

The Military Situation

The situation at Kirirom remains confused as the fighting drags on. Unconfirmed press reports claim that government forces, pinned down since 11 July, are preparing an all-out assault on enemy positions on the town's central plateau. Eight government battalions are now in place, and more troops are being sent in. For the first time since the outbreak of hostilities, Phnom Penh has admitted that government forces have suffered "fairly heavy casualties."

The Communists made an anticipated attack on the Lovek ordnance depot on the night of 15-16 July, but were repulsed. No casualties were reported on either side. Government forces, aided by air strikes, appear to be in control of the situation.

Phnom Penh - Bangkok Rail Line Reopening

As a result of an agreement reached on 11 July, the rail line between Cambodia and Thailand is due to open soon, after an interruption of nine years. Transloading will be necessary near the border as each country's rolling stock is incompatible with

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the other's. If it is opened, the Thai rail line will provide an alternative route to Phnom Penh. The capital's rail connections with its principal port at Kompong Som have been interdicted, and there are no present plans for opening that route.

Through traffic to Phnom Penh via the Thai rail line currently is cut by several damaged bridges in Kompong Chhnang Province, and until these are repaired, it will be necessary to transfer freight to trucks at Pursat. The rail line will be an attractive target to the Communists, and the government's main problem will be keeping it open.

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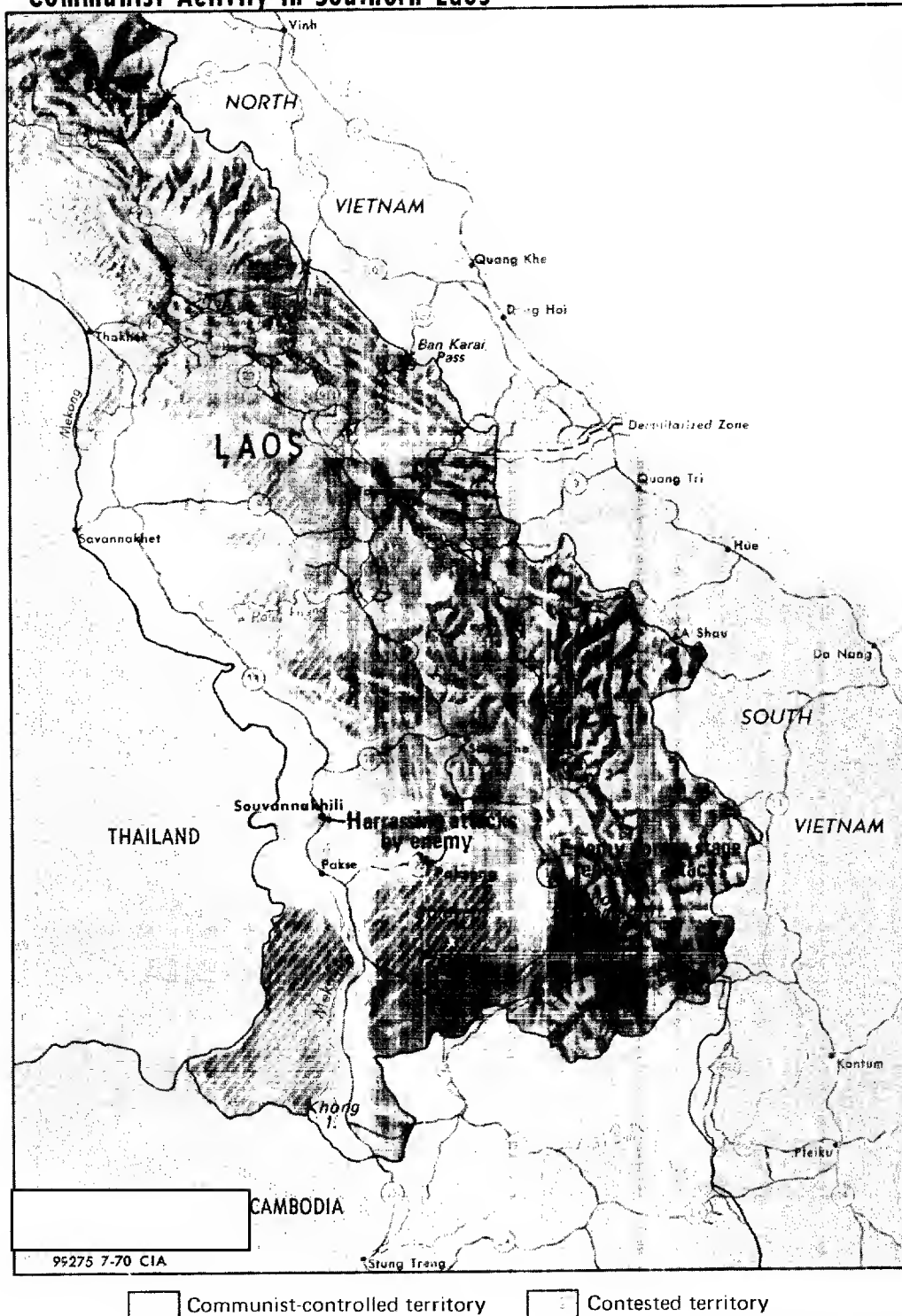
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Communist Activity in Southern Laos



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Laos: Heavy rains have brought military operations in the north to a virtual standstill, but in the panhandle frequent small clashes are occurring on the Bolovens Plateau and along the key waterways to the south.

For the past four days, enemy forces have staged repeated attacks on a government battalion that recently moved into the Phou Nongtao mountain area along the eastern edge of the plateau. At last report, the irregular unit had been forced to withdraw from its principal position, but was remaining in the area.

The Communists appear determined to maintain pressure against government bases on the Bolovens, probably to forestall interdiction operations into the infiltration corridor. Such operations have been on the increase. Since 22 June, government guerrilla teams are reported to have accounted for four trucks and 25 watercraft along Route 16 and the Se Kong River.

Farther to the southwest, Communist forces appear to be making an effort to prevent government forces from regaining the initiative during the rainy season. Harassing attacks have been directed against Paksong and Souvannakhili, and since 13 July small unit actions have been reported from the area just north of Khong Island.

All of these sites have been designated in enemy propaganda as locations that the Communists intend to seize during the rainy season. The Communists' actions so far, however, suggest that they are less interested in occupying towns than they are in tying down government troops while the flow of enemy men and material continues to Cambodia and South Vietnam.

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Peru-USSR: The arrival of the first six Soviet relief flights was greeted with a minimum of fanfare in Lima.

The dramatic impact of the 65-plane Soviet airlift of relief supplies to earthquake victims in Peru has been dissipated not only by the tardiness of the response but also by the delays in getting the flights under way after they had been announced. The official welcoming committee at the airport to meet the first flight on 14 July consisted only of two air force colonels, a representative of the presidential emergency center, and the Soviet ambassador.

The absence of any high-level officials in the welcoming committee may indicate that the Peruvian Government does not intend to single out the Soviet relief effort for special treatment. The US Embassy in Lima comments that the public reaction so far indicates that Peruvians see the Soviet aid as primarily a grandstand play undertaken for political gain.

News coverage of the airlift has not been extensive--only one leftist newspaper has given it headline treatment. Even the offer of a \$30-million Soviet credit to Peru, announced shortly after the airlift was made public, has been criticized in one Lima newspaper as "masked colonialism," because it is tied to the Peruvian purchase of Soviet machinery of allegedly questionable quality. [REDACTED]

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Chile-Cuba: Some influential Chileans are rapidly broadening relations with Cuba in intellectual and political fields as well as in trade.

Top officials of the two major Chilean universities will soon visit Cuba to study terms of a possible cultural agreement with the University of Havana. The Communist rector of the Chilean State Technical University is already in Cuba heading a delegation from his institution.

The Chilean Communist Party, which could play an influential role in the Chilean administration to be elected in September, has recently mended its strained relations with the Cuban Communist Party.

At the opposite end of the political spectrum, the head of the conservative private Chilean farmer's organization has announced that he would accept an invitation to Cuba to explore further trade opportunities. He said that Cuba offered a stable market, three to five year contracts, and payment in sterling. Indications are increasing that Chile plans to buy sugar, livestock, and possibly other commodities from Cuba.

The two countries' trade in agricultural products was used by the Alessandri administration as one excuse for not breaking relations with Cuba until August 1964.

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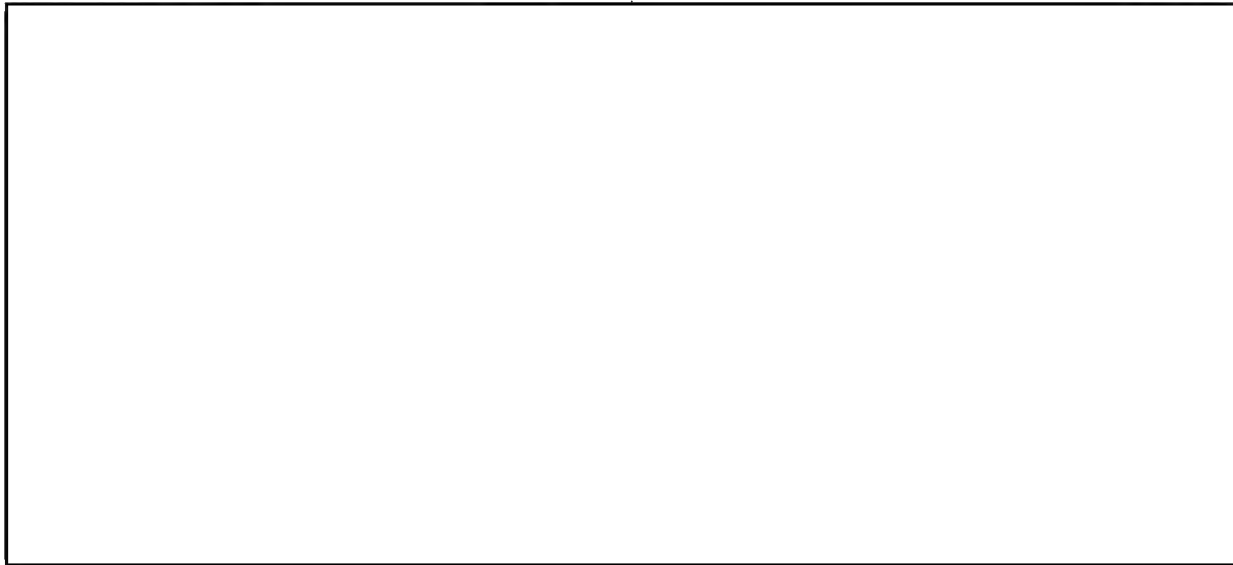
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UN-Suez: The death of a Swedish major on the UN Suez observer team and the wounding of a New Zealand observer by Egyptian small arms fire yesterday underscores the problem of maintaining the 100 observers along the canal. UN Secretary General Thant last month wrote the seven nations supplying observers in the Suez sector, stating that he could no longer guarantee their safety. The Chilean suggestion that the Security Council be asked to consider how the observers could be provided with more protection has not been followed up.

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Yugoslavia: Parliament has approved two measures designed primarily to increase economic stability and to curb inflation. A temporary tax of five percent will be imposed on imported goods to reduce Yugoslavia's growing trade deficit, and some budget surpluses will be placed in a compulsory reserve fund to limit government spending. The government will back up these measures with a more restrictive monetary and credit policy and possibly with added price controls. The cost of living currently is increasing at an annual rate of about ten percent; government officials admit that the new tariff on imports may give rise to domestic price increases.

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